

KEFI Gold and Copper

New timings

Notwithstanding the trials and tribulations that it has had to deal with in Ethiopia in recent years, KEFI believes that it is finally nearing the end of its approvals odyssey. Being first mover and also traversing the country's turbulent swing to democracy has cost the company unpredictability, time and money. However, the new mining minister is reported to be serious – to the point of being enthusiastic – about developing KEFI's Tulu Kapi project and the three substantive pre-conditions for final approval (the two banks having equal protections in the country, government installation of elevated security and the right for KEFI to administer its own banking and capital servicing arrangements) have been met or (in the case of the third) appear in the process of formalisation. With respect to security, KEFI reports that a disciplined formation of the Ethiopian Federal military has been deployed to secure mine sites throughout the country, including Tulu Kapi. In the meantime, the company has continued to upgrade and develop its assets in Saudi Arabia.

Year end	Revenue (£m)	PBT* (£m)	EPS* (p)	DPS (p)	P/E (x)	Yield (%)
12/20	0.0	(2.8)	(0.2)	0.0	N/A	N/A
12/21	0.0	(3.4)	(0.2)	0.0	N/A	N/A
12/22e	0.0	(6.9)	(0.2)	0.0	N/A	N/A
12/23e	0.0	(4.0)	(0.1)	0.0	N/A	N/A

Note: *PBT and EPS are normalised, excluding amortisation of acquired intangibles, exceptional items and share-based payments.

KEFI had been hoping to sign definitive agreements around the end of FY22. In the light of recent developments, it is now aiming to sign off on its final Umbrella Agreement at the end of April (note: Watch the Invest Ethiopia conference on 26–28 April). Following that, it expects final government approvals in May (which will allow it to sign individual agreements with banks etc party by party), KEFI shareholder approval in June and independently certified security sign-off also in June, ahead of equity funds flowing in July. The timing of all of the above will be driven by the Ethiopian government. However, all other things being equal, KEFI expects to be at full production after 24 months of construction – ie in mid-2025.

In our last full update note on the company (see [Counting down to production](#), published on 7 December 2022), we calculated that KEFI's trio of projects was capable of generating free cash flow of c £84.0m a year from FY26 to FY31, funding average (maximum potential) dividends of 0.63p/share and valuing KEFI at 2.19p/share fully diluted at the warrant exercise price of 1.6p/share to account for US\$11.5m (£9.4m) in equity issuance in H123. This valuation reduced to 1.92p/share if all convertible instruments were converted at our valuation of the shares in three to four years' time. At spot prices, however, it increased to 5.88p in FY26 (plus a further c 1.18p/share for Guji-Komto), which implied an internal rate of return to investors of 43.1% in sterling terms over 13 years. The indicated updated timing suggests that our target of ramp-up in H125 with full production from July 2025 is still achievable. At worst, it suggests a one quarter delay and only 1,000kt of ore processed in FY25, rather than the 1,500kt that we had previously modelled. In this latter case, we would discount our valuations (above) by a relatively modest additional 3.9%, reducing our central valuation of 2.19p/share to 2.11p/share.

Update on approvals

Metals and mining

17 April 2023

Price 0.94p
Market cap £37m

Net cash (£m) at end June 2022	2.3
Shares in issue	3,939.1m
Free float	95.8%
Code	KEFI
Primary exchange	AIM
Secondary exchange	N/A

Share price performance



Business description

KEFI Gold and Copper is an exploration and development company focused on gold and copper deposits in the highly prospective Arabian-Nubian Shield – namely the Tulu Kapi project in Ethiopia (projected 70% interest) and the Hawiah and Jibal Qutman projects (both 30%) in Saudi Arabia.

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